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SUBJECT: MEXICO'S BANKING SECTOR CONTINUES EXPANSION IN 2005

SUMMARY

¶11. (U) In 2005, Mexico's banking sector enjoyed continued rapid expansion in both loans and profits. Mortgage and consumer credit grew 35% and 48% respectively, while loans to businesses grew a modest 5%. Banking profits grew 83% over 2004 to USD 4.4 billion, prompting criticism that the banks are "too profitable." Finance Secretary Francisco Gil Diaz and others have defended the banking system as an engine of growth that has succeeded because of improved operations and customer service. (Note: None of the figures in this report include Mexico's government-owned development banks. End note.) End summary.

CREDIT SOARED

¶12. (U) Despite oft-cited public sentiment that Mexican banks have been tight with their lending, Mexico's banking sector expanded credit at phenomenal rates in 2005, following equally healthy lending growth in 2004. In 2005, Mexico's full-service banks grew their overall loan portfolios to the private sector (mortgage, consumer, and business credit) 21.5% over 2004, to USD 78 billion. Consumer loans and mortgages grew 48% and 35% respectively. Loans to businesses (other than financial institutions) grew by a modest 5.4 percent, though businesses are still the banks' main customers.

AS DID PROFITS

¶13. (U) According to the National Banking and Securities Commission (CNBV), banks' net profits rose 83% in 2005, to USD 4.4 billion. The banking sector continued to be dominated by six banks, which together hold 86% of Mexico's private sector banking assets. Of these, only one, Banorte, the fifth largest, is Mexican. The others, in order of assets held, are BBVA Bancomer (Spanish), Banamex (owned by Citigroup), Santander Serfin (Spanish), HSBC (British), and Scotiabank Inverlat (Canadian).

ELICITING SOME CRITICISM

¶14. (U) The banking sectors' profits have prompted some

criticism, which is partly fueled by the banks' foreign ownership. Central Bank Governor Guillermo Ortiz and Competition Commission head Eduardo Perez Motta have both voiced public criticism of the sector's profitability. Defenders of the banking sector, including CNBV president Jonathan Davis and Finance Secretary Francisco Gil Diaz, while admitting there was room for improvement, say banks' profits are directly related to improved operations and customer service.

COMMENT

¶5. (SBU) The banking sector in Mexico has yet to recover from the 1995 collapse and the high rates of credit growth are largely due to the small base from which credit is growing. Banking credit as a percentage of GDP still greatly lags behind most industrialized economies. Furthermore, banking services have yet to reach most of the population -- a fact accepted by banking leaders. However, the banks have indeed stepped up their lending efforts - that is, after all, their business. Competition has lead to rapidly falling interest rates that are at historically low levels, making credit much more accessible. Low inflation and macroeconomic stability have also allowed for repayment terms stretching to 20 or more years at fixed rates - a phenomenon unheard of just a few years ago. Criticizing the success of the banks, to which many attribute Mexico's economic rebound and its projected future economic growth, is not productive.

¶6. (SBU) Long-standing criticism that banks are not lending enough to businesses is also unfair. Although growth in lending to businesses has been slower than to consumers and

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homeowners, the banks rightly point out that many small- and medium-sized businesses simply don't have the needed expertise and documented financial performance to take advantage of banking credit. Furthermore, most large businesses have access to cheaper financing through the financial markets and many businesses of all sizes can and do obtain credit from suppliers and other sources. The success of the banking sector is something that should be applauded and will hopefully continue unimpeded by government intervention, helping propel Mexico's economy despite itself.

GARZA